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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001422

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STATE FOR NEA/ARPI, EB

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SUBJECT: MINISTER OF OIL DISCUSSES PETROLEUM SECTOR WITH AMBASSADOR

REF: STATE 166919

Classified by Ambassador William T. Monroe for reasons 1.4 (b) and (d).

Summary

11. (C) Minister of Oil Isa bin Ali Al Khalifa told the Ambassador September 6 that U.S. companies have participated successfully in the development of Bahrain's petroleum and petrochemicals sector, and he looks forward to continued cooperation with the U.S. He stated that his primary concern is finding a steady supply of natural gas, and noted that Qatar is the natural source. As discussions with Qatar have become stuck because of Saudi Arabia's lack of clarity on whether a pipeline can pass through Saudi territory, a Bahraini official visited Iran to discuss the supply of gas. The Ambassador responded that the United States would be greatly concerned about a deal with Iran and recommended that Bahrain focus on the Qatar option. The Minister said that Saudi Arabia intends to expand oil production in the Abu Saafa oil field from 140 thousand to 300 thousand barrels per day, and he hopes the Saudis continue to donate their share of the field's production to Bahrain. End Summary.

U.S. Firms Welcome in Bahrain

12. (C) Minister of Oil Isa bin Ali Al Khalifa welcomed the Ambassador to Bahrain during their September 6 introductory meeting and explained that Bahrain has a long track record of successful cooperation with American companies in the petroleum sector. He noted that the Ministry had recently invited four American firms - Chevron Phillips Chemical, Dow Chemicals, Huntsman, and ABB Lummus - out of nine companies total to submit proposals for the development of a new \$1.4 billion naptha cracker. The timetable for the project is still not clear, but it likely will proceed because the GOB has calculated that the internal rate of return on the investment would be 16 percent and the plant would employ many Bahrainis.

Searching for Steady Supply of Gas

13. (C) He stated that his main concern is access to a steady supply of natural gas. The Ambassador noted that he had met with Exxon concerning the proposed pipeline project from Qatar. Al Khalifa said that the Emir of Qatar had told him that Qatar wants to proceed with the project but Saudi Arabia had caused it to get bogged down. The Qatar plan was to build a pipeline from Qatar to Bahrain, and onward to Kuwait through Saudi territory. However, the Saudi government has not yet signaled whether this would be acceptable.

14. (C) The Minister said that Crown Prince Salman bin Hamad Al Khalifa had taken possession of the gas issue and had formed a committee to explore Bahrain's options. An Under Secretary from the Ministry of Finance and National Economy

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visited Iran to discuss the supply of gas. The Ambassador interjected that the United States would be greatly concerned with a Bahraini gas deal with Iran, and strongly recommended that Bahrain conclude a deal with Qatar. The Minister said that Bahrain's intent was to show the Qataris that it had other options, and noted that perhaps Saudi Arabia or Iraq could supply gas to Bahrain. He commented, however, that Qatar was the most logical solution.

15. (C) The Minister stated that Bahrain has domestic supplies of natural gas to satisfy current consumption but needs access to additional supply to meet future demand. He said that the national economy and industries must grow and the lack of gas is already acting as a constraint on expansion. Bahrain could take advantage of high international prices for urea and methanol if it had sufficient supplies of gas to expand its petrochemical industry. He noted that ALBA, Bahrain's aluminum

manufacturer, had signed an agreement with U.S.-firm ALCOA in 2003 to produce aluminum jointly on a sixth production line, but that deal was in jeopardy because Bahrain did not have enough gas to support the sixth line. He indicated that Bahrain had drilled for gas in Bahraini territorial waters near the border with Qatar but had come up empty. Chevron and Petronas are scheduled to drill additional test holes in the vicinity of Hawar Island.

Saudi Generosity with Oil

16. (C) Regarding oil, Al Khalifa said that though Saudi Arabia and Bahrain officially share the 140,000 barrels per day produced in the Abu Saafa field, Saudi Arabia donates its half to Bahrain. The Saudis had announced previously their intent to invest in the field to expand production to 300,000 barrels per day, and the Minister hoped that Saudi Arabia would continue to donate its share to Bahrain, saying the Saudis have been very generous. He indicated that Bahrain both benefits and loses from high international oil prices. While Bahrain exports oil products, it purchases crude to process in its refinery. The net impact of high international oil prices on Bahrain's economy is positive, but there are costs as well.

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